

**AUDITED FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTAL INFORMATION
OTHER FINANCIAL INFORMATION
AND SUPPLEMENTAL REPORTS**

**TOWNSHIP OF WATERSMEET
WATERSMEET, MICHIGAN**

March 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Watersmeet	County Gogebic
Audit Date 3/31/05	Opinion Date 6/24/05	Date Accountant Report Submitted to State: 7/21/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Joki, Makela & Pollack, PLLC			
Street Address 301 N Suffolk St		City Ironwood	State MI
		ZIP 49938	
Accountant Signature <i>Joki, Makela & Pollack PLLC</i>			Date 7/21/05

CONTENTS

Audited Financial Statements:	
Independent Auditor's Report	Page 4
Management's Discussion and Analysis	6
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities.....	15
Fund Financial Statements:	
Balance Sheet – General Fund	17
Reconciliation of the General Fund Balance Sheet with the Statement of Net Assets	18
Statement of Revenues, Expenditures and Changes in Fund Balance – General Fund	19
Reconciliation of the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance with the Statement of Activities.....	20
Proprietary Funds:	
Statement of Net Assets	21
Statement of Revenues, Expenses and Changes in Net Assets	22
Statement of Cash Flows	23
Statement of Fiduciary Net Assets – Agency Fund	24
Notes to Financial Statements	26
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	42

CONTENTS (CONTINUED)

Other Financial Information:

General Fund:

Statement of Revenues – Estimated and Actual 44

Statement of Expenditures and Comparison with Budget 46

Enterprise Funds:

Combining Statements of Net Assets 51

Combining Statements of Revenues, Expenses and Changes in Net Assets 53

Combining Statements of Cash Flows 54

Sewage Disposal System Fund:

Statements of Net Assets 56

Statements of Revenues, Expenses and Changes in Net Assets 58

Statements of Cash Flows 59

Fiduciary Fund – Statement of Changes in Assets and Liabilities – Tax Collection Fund 61

Supplemental Reports -

Report on Compliance and on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards* A-1

Schedule of Findings B-1

JOKI, MAKELA & POLLACK, P.L.L.C.

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INDEPENDENT AUDITOR'S REPORT

Supervisor and Members of the Board
Township of Watersmeet
Watersmeet, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Township of Watersmeet and its fund financial statements as of and for the year ended March 31, 2005, which collectively comprise the basic financial statements of Township of Watersmeet, as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of Township of Watersmeet as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 24, 2005, on our consideration of Township of Watersmeet's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note A, the Township has restated its net assets at April 1, 2004, to correct the reported amount of accumulated depreciation of governmental activities capital assets.

The management's discussion and analysis and budgetary comparison information on pages 6 through 12 and page 42, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Watersmeet's basic financial statements. The accompanying Other Financial Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole. Also, in our opinion, the combining financial statements of Township of Watersmeet Enterprise Funds and the individual fund financial statements of the Sewage Disposal System Fund as of and for the year ended March 31, 2004, present fairly, in all material respects, the financial position of those funds as of March 31, 2004 and the respective changes in financial position and cash flows, thereof for the year then ended.

Joki, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
June 24, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWNSHIP OF WATERSMEET

Year ended March 31, 2005

Management's Discussion and Analysis

This section of the Township of Watersmeet's (Township) annual financial report presents our discussion and analysis of the Township's financial performance during the year ended March 31, 2005. It is to be read in conjunction with the Township's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments* and is intended to provide the financial results for the fiscal year ending March 31, 2005.

Government-wide Financial Statements

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net assets and the statement of activities. They report information about the Township as a whole. The statements are prepared using the accrual method of accounting which is the accounting used by most private sector businesses. The statement of net assets includes all of the Township's assets and liabilities except the fiduciary funds. All current year revenues and expenses are reported in the statement of activities. The two statements report the governmental and business-type activities of the Township that include all services performed by the Township. These activities are funded primarily by property taxes, charges for services and by federal and state grants.

The statement of net assets reports the Township's assets and liabilities. The corresponding balance between the assets and liabilities equals the net assets of the Township. This statement measures the financial strength of the Township; the greater the net asset figure, the healthier the financial position of the Township generally is. It helps management determine if the Township will be able to fund current obligations and whether they have resources available for future use.

The statement of activities shows the current year change in net assets on a revenue less expense basis. It generally shows the operating results for a given year of the Township. Any excess of revenues over expenditures results in a surplus for the year that in turn increases the net assets (or reduces a deficit) available to fund future needs of the Township.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fund Financial Statements

The Township's fund financial statements show a detail of funds that are determined to be significant, called major funds. The funds that are separately stated as major funds are the General Fund, Water Supply Fund and Sewage Disposal System Fund. The Township has no nonmajor funds.

Governmental funds are accounted for by the modified accrual method of accounting (flow of current financial resources measurement focus). This method records revenues when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Expenditures are recorded when the related liability is incurred. The governmental fund financial statements show the detail of operations for a given year according to this method of accounting. The individual fund statements help management determine what financial resources are available on a short-term basis to fund operations.

Since the government-wide financial statements and the fund financial statements use different methods of accounting to report the Township's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.

Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds.

Fiduciary funds are reported in the fiduciary fund financial statement, but are excluded from the government-wide reporting. The fiduciary fund financial statement reports resources that are not available to fund Township programs. The fiduciary fund financial statement reports similarly to governmental funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information

Statement of Net Assets

The following is a condensed statement of net assets with a detailed analysis of the statement below as of March 31, 2005 and 2004..

	<u>March 31, 2005</u>	
	<u>Governmental</u>	<u>Business-Type</u>
	<u>Activities</u>	<u>Activities</u>
ASSETS		
Current Assets:		
Cash	\$ 113,732	\$ 135,922
Accounts receivable	91,104	19,101
Other current assets	<u>328,851</u>	
Total Current Assets	\$ 533,687	\$ 155,023
Noncurrent Assets:		
Restricted cash		\$ 43,444
Capital assets, net of accumulated depreciation	<u>\$ 825,131</u>	<u>1,019,424</u>
Total Noncurrent Assets	<u>\$ 825,131</u>	<u>\$ 1,062,868</u>
Total Assets	<u>\$ 1,358,818</u>	<u>\$ 1,217,891</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 86,400	
Other current liabilities	<u>53,547</u>	<u>\$ 9,282</u>
Total Current Liabilities	\$ 139,947	\$ 9,282
Long-term liabilities, net of current portion	<u>115,998</u>	<u>294,000</u>
Total Liabilities	<u>\$ 255,945</u>	<u>\$ 303,282</u>
NET ASSETS		
Investment in capital assets, net of related debt	\$ 715,624	\$ 719,424
Restricted for debt service		43,444
Unrestricted	<u>387,249</u>	<u>151,741</u>
Total Net Assets	<u>\$ 1,102,873</u>	<u>\$ 914,609</u>

The Township's total net assets are \$2,017,482 at March 31, 2005. Capital assets, net of related debt are \$1,435,048. This figure is derived by taking the original cost of the Township's assets, subtracting accumulated depreciation to date and comparing this figure to the amount of long-term debt used to finance the acquisition of those assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information

Statement of Net Assets (Continued)

	<u>March 31, 2004</u>	
	<u>Governmental</u>	<u>Business-Type</u>
	<u>Activities</u>	<u>Activities</u>
ASSETS		
Current Assets:		
Cash	\$ 142,596	\$ 134,031
Accounts receivable	71,327	17,751
Other current assets	<u>364,097</u>	<u>916</u>
Total Current Assets	\$ 578,020	\$ 152,698
Noncurrent Assets:		
Restricted cash		\$ 38,373
Capital assets, net of accumulated depreciation	<u>\$ 700,731</u>	<u>1,068,338</u>
Total Noncurrent Assets	\$ 700,731	\$ 1,106,711
Total Assets	<u>\$ 1,278,751</u>	<u>\$ 1,259,409</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 51,167	\$ 1,650
Other current liabilities	<u>76,720</u>	<u>7,653</u>
Total Current Liabilities	\$ 127,887	\$ 9,303
Long-term liabilities, net of current portion	<u>132,528</u>	<u>300,000</u>
Total Liabilities	<u>\$ 260,415</u>	<u>\$ 309,303</u>
NET ASSETS		
Investment in capital assets, net of related debt	\$ 573,096	\$ 763,338
Restricted for debt service		38,373
Unrestricted	<u>445,240</u>	<u>148,395</u>
Total Net Assets	<u>\$ 1,018,336</u>	<u>\$ 950,106</u>

The Township's total net assets are \$1,968,442 at March 31, 2004. Capital assets, net of related debt are \$1,336,434.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information

Statement of Net Assets (Continued)

Restricted net assets are restricted by enterprise fund bond ordinances and by Board action.

The total unrestricted net assets are \$538,990 and \$593,635 as of March 31, 2005 and 2004, respectively. This is the net accumulated result of the current and past years' operations. The nature of the Township's operations is based on property taxes, charges for services, state aid, federal grants and local funds received to fund various programs. The balance in the unrestricted net assets shows that the Township has an ample amount of assets to fund liabilities at March 31, 2005.

Statement of Activities

The results of operations for the Township as a whole are reported in the statement of activities. This statement reports the changes in net assets for the fiscal year ended. The following is a condensed statement of activities with a detailed analysis of the statement below for the years ended March 31, 2005 and 2004.

	<u>Year ended March 31, 2005</u>	
	<u>Governmental</u>	<u>Business-Type</u>
	<u>Activities</u>	<u>Activities</u>
Revenue:		
Program Revenues:		
Charges for services	\$ 56,756	\$ 113,100
Operating grants and contributions	179,020	
General Revenues:		
Property Taxes	414,524	
State and federal grants	137,698	19,980
Other	<u>3,560</u>	<u>723</u>
Total Revenue	<u>\$ 791,558</u>	<u>\$ 133,803</u>
Program expenses:		
Governmental activities	\$ 707,021	
Business-type activities		\$ 169,300
	<u>\$ 707,021</u>	<u>\$ 169,300</u>
Increase (Decrease) in Net Assets	<u>\$ 84,537</u>	<u>\$ (35,497)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Activities (Continued)

	<u>Year ended March 31, 2004</u>	
	<u>Governmental</u>	<u>Business-Type</u>
	<u>Activities</u>	<u>Activities</u>
Revenue:		
Program Revenues:		
Charges for services	\$ 57,943	\$ 109,711
Operating grants and contributions	205,813	
General Revenues:		
Property Taxes	400,082	
State and federal grants	143,345	
Other	<u>29,019</u>	<u>1,068</u>
Total Revenue	<u>\$ 836,202</u>	<u>\$ 110,779</u>
Program expenses:		
Governmental activities	\$ 692,718	
Business-type activities	<u></u>	<u>\$ 150,658</u>
	<u>\$ 692,718</u>	<u>\$ 150,658</u>
Increase (Decrease) in Net Assets	<u>\$ 143,484</u>	<u>\$ (39,879)</u>

The Township had an overall increase in net assets of \$49,040 and \$103,605 for the years ended March 31, 2005 and 2004, consisting of increases in governmental activities and decreases in business-type activities.

The Township's total revenues totaled \$925,361 and \$946,981 for the years ended March 31, 2005 and 2004, respectively.

The Township's total cost to fund governmental activities was \$707,021 and \$692,718, and business-type activities was \$169,300 and \$150,658 for the years ended March 31, 2005 and 2004, respectively. A majority of these costs were funded by property taxes and state and federal grants. This shows the Township has reliance on property taxes and grants to provide future funding for its programs and administrative costs. During the year ended March 31, 2004, the Township increased its water rates from a monthly charge of \$6.00 to \$18.50 a month to generate a better cash flow for its Water Supply Fund. The Sewage Disposal System Fund had several large repair expenses during the year ended March 31, 2005.

Governmental Fund Budgetary Items

During each year, the Township revised its original budget several times to account for the changing environment of funding sources. A schedule showing the Township's original budget, final budget and the actual results are included as required supplementary information in the financial section of the audit report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets

At March 31, 2005, the Township had \$1,844,555 invested in capital assets net of accumulated depreciation. This amount increased during the past fiscal year by \$75,486, consisting of additions totaling \$165,830, and depreciation charges of \$41,430 for its governmental activities, and depreciation charges of \$48,914 for its business-type activities. Included in governmental activities additions were infrastructure additions of \$116,872.

Debt

The Township had \$415,998 of long-term liabilities at March 31, 2005. This amount consists of \$300,000 of a revenue bond payable as described in Note G to the financial statements, a \$109,507 note payable for a fire truck as described in Note H to the financial statements and \$6,491 of accrued paid time off benefits payable to employees as described in Note A to the financial statements.

Future Considerations

The Township has adopted a budget for the upcoming fiscal year that should not over expend it's funding and leave the Township with a positive Fund Balance. Costs of operating the Township's refuse disposal system continue to increase. An increase in sewer rates will become effective during the next fiscal year. The Township will continue to seek federal grants to assist in obtaining new fire department equipment. The Township designates certain revenues and sets them aside for future road construction projects. Continuing efforts are being made at obtaining grant and loan financing for a water system improvement project.

Contacting the Township

If you have any questions about this report or need additional information, contact the Township offices at Township of Watersmeet, P.O. Box 306, Watersmeet, MI 49969; telephone number (906) 358-4501.

BASIC
FINANCIAL
STATEMENTS

STATEMENT OF NET ASSETS
TOWNSHIP OF WATERSMEET, MICHIGAN

March 31, 2005

	Governmental Activities	Business-Type Activities
ASSETS		
Cash	\$ 113,732	\$ 135,922
Receivables:		
Delinquent property taxes	31,639	
Accounts	59,465	19,101
Due from other funds	292,777	
Due from other governmental units	36,074	
Capital assets, net	825,131	1,019,424
Restricted cash	<u> </u>	<u>43,444</u>
Total Assets	<u>\$ 1,358,818</u>	<u>\$ 1,217,891</u>
LIABILITIES		
Accounts payable	\$ 86,400	
Accrued interest		\$ 1,608
Advance collections		1,674
Withheld payroll taxes	5,980	
Deferred revenues	47,567	
Long-term debt	109,507	300,000
Accumulated absences	<u>6,491</u>	<u> </u>
Total Liabilities	<u>\$ 255,945</u>	<u>\$ 303,282</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 715,624	\$ 719,424
Restricted		43,444
Unrestricted	<u>387,249</u>	<u>151,741</u>
Total Net Assets	<u>\$ 1,102,873</u>	<u>\$ 914,609</u>

The accompanying notes are an integral part of the
financial statements.

STATEMENT
TOWNSHIP OF
Year ended

		<u>Program Revenues</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental activities:			
Legislative	\$ 42,603		
General government	226,706	\$ 19,327	\$ 29,108
Health and welfare	3,759		
Public safety	164,303	28,548	93,750
Recreation and parks	20,945		
Public works	166,112	8,881	56,162
Other functions	<u>82,593</u>		
Total Governmental Activities	\$ 707,021	\$ 56,756	\$ 179,020
Business-type activities:			
Water Supply	\$ 58,021	\$ 51,682	
Sewage Disposal System	<u>111,279</u>	<u>61,418</u>	
Total Business-Type Activities	\$ 169,300	\$ 113,100	
Total	<u>\$ 876,321</u>	<u>\$ 169,856</u>	<u>\$ 179,020</u>

General revenues:
Taxes
State and federal grants
Interest

Total General Revenues

Change in Net Assets

Net assets at April 1, 2004, as previously stated
Correction of accumulated depreciation of
governmental activities capital assets

Net assets at April 1, 2004, as restated

Net assets at March 31, 2005

The accompanying notes are an integral part of the
financial statements.

OF ACTIVITIES

WATERSMEET, MICHIGAN

March 31, 2005

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (42,603)		\$ (42,603)
(178,271)		(178,271)
(3,759)		(3,759)
(42,005)		(42,005)
(20,945)		(20,945)
(101,069)		(101,069)
<u>(82,593)</u>		<u>(82,593)</u>
\$ (471,245)		\$ (471,245)
	\$ (6,339)	\$ (6,339)
	<u>(49,861)</u>	<u>(49,861)</u>
	\$ (56,200)	\$ (56,200)
\$ (471,245)	\$ (56,200)	\$ (527,445)
\$ 414,524		\$ 414,524
137,698	\$ 19,980	157,678
<u>3,560</u>	<u>723</u>	<u>4,283</u>
\$ 555,782	\$ 20,703	\$ 576,485
\$ 84,537	\$ (35,497)	\$ 49,040
\$ 977,556	\$ 950,106	\$ 1,927,662
<u>40,780</u>		<u>40,780</u>
\$ 1,018,336	\$ 950,106	\$ 1,968,442
<u>\$ 1,102,873</u>	<u>\$ 914,609</u>	<u>\$ 2,017,482</u>

BALANCE SHEET - GENERAL FUND
TOWNSHIP OF WATERSMEET, MICHIGAN

March 31, 2005

ASSETS	
Cash	\$ 113,732
Delinquent property taxes	31,639
Accounts receivable	59,465
Due from other funds	292,777
Due from other governmental units	<u>36,074</u>
Total Assets	<u>\$ 533,687</u>
LIABILITIES	
Accounts payable	\$ 86,400
Withheld payroll taxes	5,980
Deferred revenues	<u>47,567</u>
Total Liabilities	<u>\$ 139,947</u>
FUND EQUITY	
Unreserved fund balance	<u>\$ 393,740</u>

The accompanying notes are an integral part of the
financial statements.

RECONCILIATION OF THE GENERAL FUND BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS
TOWNSHIP OF WATERSMEET, MICHIGAN
March 31, 2005

Total fund equity of governmental activities	\$ 393,740
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Amounts reported for governmental activities in the statement of net assets are different because:

Additions:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of capital assets	\$ 1,199,856	
Accumulated depreciation	<u>(374,725)</u>	825,131

Reductions:

Long-term liabilities are not due and payable in the current period and therefore not reported as liabilities in the funds.

USDA Rural Development note payable	\$ 109,507	
Accumulated absences	<u>6,491</u>	<u>(115,998)</u>

Total net assets of governmental activities	<u>\$ 1,102,873</u>
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - GENERAL FUND

TOWNSHIP OF WATERSMEET, MICHIGAN

Year ended March 31, 2005

Revenues:

Taxes	\$ 414,524
Licenses and permits	28,548
Federal grants	69,776
State grants	98,161
Charges for services	28,208

Interest	3,560
Other revenues	<u>148,781</u>

\$ 791,558

Expenditures:

Current:

Legislative	\$ 42,603
General government	218,763
Health and welfare	3,759
Public safety	134,206
Recreation and parks	19,805
Public works	163,862
Other functions	75,524
Capital outlay	165,830
Debt service	<u>23,599</u>

\$ 847,951

DEFICIENCY OF REVENUES OVER EXPENDITURES \$ (56,393)

Fund balance at April 1, 2004 450,133

FUND BALANCE AT MARCH 31, 2005 \$ 393,740

The accompanying notes are an integral part of the
financial statements.

RECONCILIATION OF THE GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE WITH THE STATEMENT OF ACTIVITIES

TOWNSHIP OF WATERSMEET, MICHIGAN

March 31, 2005

Total net change in fund balance \$ (56,393)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or construct capital assets are reported as expenditures in governmental funds. For governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.

Capital outlays	\$ 165,830	
Depreciation expense	<u>(41,430)</u>	124,400

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not effect the statement of activities.

18,128

In the statement of activities, operating expenses for compensated absences are measured by amounts earned during the year while the governmental funds report expenditures as amounts are paid. This year the amount paid for compensated absences was less than the amount earned.

(1,598)

Change in net assets of governmental activities

\$ 84,537

The accompanying notes are an integral part of the financial statements.

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

TOWNSHIP OF WATERSMEET, MICHIGAN

March 31, 2005

		Business-Type Activities Enterprise Funds		
		Water Supply Fund	Sewage Disposal System Fund	Totals
ASSETS				
CURRENT ASSETS				
Cash in bank	\$	26,176	\$ 109,746	\$ 135,922
Accounts receivable		<u>7,401</u>	<u>11,700</u>	<u>19,101</u>
TOTAL CURRENT ASSETS	\$	33,577	\$ 121,446	\$ 155,023
NONCURRENT ASSETS				
Restricted cash	\$	7,165	\$ 36,279	\$ 43,444
Capital assets		457,367	1,486,568	1,943,935
Less accumulated depreciation		(277,663)	(686,704)	(964,367)
Construction in progress		<u>39,856</u>		<u>39,856</u>
TOTAL NONCURRENT ASSETS	\$	<u>226,725</u>	\$ <u>836,143</u>	\$ <u>1,062,868</u>
TOTAL ASSETS	\$	<u>260,302</u>	\$ <u>957,589</u>	\$ <u>1,217,891</u>
LIABILITIES				
CURRENT LIABILITIES				
Accrued interest			\$ 1,608	\$ 1,608
Advance collections	\$	1,649	25	1,674
Current portion of long-term debt			<u>6,000</u>	<u>6,000</u>
TOTAL CURRENT LIABILITIES	\$	1,649	\$ 7,633	\$ 9,282
NONCURRENT LIABILITIES				
Revenue bonds payable, net of current portion			<u>294,000</u>	<u>294,000</u>
TOTAL LIABILITIES	\$	<u>1,649</u>	\$ <u>301,633</u>	\$ <u>303,282</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$	219,560	\$ 499,864	\$ 719,424
Restricted		7,165	36,279	43,444
Unrestricted		<u>31,928</u>	<u>119,813</u>	<u>151,741</u>
TOTAL NET ASSETS	\$	<u>258,653</u>	\$ <u>655,956</u>	\$ <u>914,609</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS

TOWNSHIP OF WATERSMEET, MICHIGAN

Year ended March 31, 2005

	Business-Type Activities Enterprise Funds		
	Water Supply Fund	Sewage Disposal System Fund	Totals
Operating revenues:			
Charges for services	\$ 49,282	\$ 61,418	\$ 110,700
Hydrant rental	<u>2,400</u>		<u>2,400</u>
	\$ 51,682	\$ 61,418	\$ 113,100
Operating expenses:			
Personnel services	\$ 17,233	\$ 27,077	\$ 44,310
Purchase of services	14,631	17,885	32,516
Materials and supplies	14,201	10,678	24,879
Provision for depreciation	<u>11,956</u>	<u>36,958</u>	<u>48,914</u>
	\$ 58,021	\$ 92,598	\$ 150,619
OPERATING LOSS	\$ (6,339)	\$ (31,180)	\$ (37,519)
Nonoperating revenues (expenses):			
Interest earned	\$ 150	\$ 573	\$ 723
Debt service - interest and fees		<u>(18,681)</u>	<u>(18,681)</u>
	\$ 150	\$ (18,108)	\$ (17,958)
Capital contributions - Bureau of Indian Affairs grant	\$ (6,189)	\$ (49,288)	\$ (55,477)
	<u>4,980</u>	<u>15,000</u>	<u>19,980</u>
CHANGE IN NET ASSETS	\$ (1,209)	\$ (34,288)	\$ (35,497)
Net assets at April 1, 2004	<u>259,862</u>	<u>690,244</u>	<u>950,106</u>
NET ASSETS AT MARCH 31, 2005	<u>\$ 258,653</u>	<u>\$ 655,956</u>	<u>\$ 914,609</u>

The accompanying notes are an integral part of the
financial statements.

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

TOWNSHIP OF WATERSMEET, MICHIGAN

Year ended March 31, 2005

	Business-Type Activities Enterprise Funds		
	Water Supply Fund	Sewage Disposal System Fund	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 49,993	\$ 59,986	\$ 109,979
Hydrant rental	2,400		2,400
Cash paid to suppliers and employees for goods and services	<u>(46,136)</u>	<u>(57,219)</u>	<u>(103,355)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 6,257	\$ 2,767	\$ 9,024
Cash flows from capital and related financing activities:			
Capital grants received	\$ 4,980	\$ 15,000	\$ 19,980
Principal paid on revenue bonds		(5,000)	(5,000)
Revenue bond interest and fees paid		<u>(18,681)</u>	<u>(18,681)</u>
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	\$ 4,980	\$ (8,681)	\$ (3,701)
Cash flows from noncapital financing activities -			
Advance from other fund	916		916
Cash flows from investing activities - interest earned	<u>150</u>	<u>573</u>	<u>723</u>
NET INCREASE (DECREASE) IN CASH	\$ 12,303	\$ (5,341)	\$ 6,962
Cash at April 1, 2004	<u>21,038</u>	<u>151,366</u>	<u>172,404</u>
CASH AT MARCH 31, 2005	<u>\$ 33,341</u>	<u>\$ 146,025</u>	<u>\$ 179,366</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	\$ (6,339)	\$ (31,180)	\$ (37,519)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation	\$ 11,956	\$ 36,958	\$ 48,914
Increase in customer accounts receivable	(99)	(1,251)	(1,350)
Increase (decrease) in:			
Accounts payable	(71)	(1,579)	(1,650)
Advance collections	<u>810</u>	<u>(181)</u>	<u>629</u>
Total adjustments	<u>\$ 12,596</u>	<u>\$ 33,947</u>	<u>\$ 46,543</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 6,257</u>	<u>\$ 2,767</u>	<u>\$ 9,024</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUND

TOWNSHIP OF WATERSMEET, MICHIGAN

March 31, 2005

ASSET	
Cash in bank	<u>\$ 329,199</u>
LIABILITIES	
Due other funds	\$ 292,777
Undistributed tax collections	<u>36,422</u>
	<u>\$ 329,199</u>

The accompanying notes are an integral part
of the financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

NOTES TO FINANCIAL STATEMENTS
TOWNSHIP OF WATERSMEET, MICHIGAN

March 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Watersmeet Township operates under an elected Board of Trustees. The financial statements of the Township have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. The more significant of the Township's accounting policies are described below.

Financial Reporting Entity

In conformity with generally accepted accounting principles, other autonomously operated governmental organizations are not considered to be part of the Township financial-reporting entity. The criteria established for determining the various governmental organizations to be included as component units in the Township's financial statements include oversight responsibility, scope of public service and special financing relationships.

On this basis, the financial statements of the local school district and volunteer fire association are not included as component units in the financial statements of the Township. Educational services are provided to citizens through the local school district, which is a separate governmental entity. The Watersmeet Township Volunteer Firefighters' Association is organized as a separate nonprofit entity.

Basis of Presentation

Government-wide Financial Statements

The Township government-wide financial statements (Statement of Net Assets and Statement of Activities) report information on all of the activities of the Township except for the fiduciary activities. The Township General Fund is considered to be a governmental activity and its enterprise funds business-type activities. Interfund activity including operating transfers between activities has been eliminated in the Government-wide financial statements.

Fund-based Financial Statements

Separate financial statements are provided on the basis of funds, each of which is considered a separate fiscal and accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Governmental, business-type and fiduciary funds are provided. The various fund types are grouped in the financial statements as major funds or nonmajor funds. The Township reports the General Fund, Water Supply Fund and Sewage Disposal System Fund as major funds. There are no nonmajor funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund-based Financial Statements (Continued)

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund. The fund includes the general operating expenditures of the Township. Revenues are derived primarily from property taxes, state and federal grants and various local sources.

Proprietary Fund Types

These funds account for operations that are organized to be self-supporting through user charges and include Enterprise Funds.

Enterprise Funds - Water Supply and Sewage Disposal System Funds are used to account for operations of the water and the sewage systems in a manner similar to private business enterprises, where the intent of the Township is that the expenses, including depreciation, of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Fund Type

Agency Fund - The Tax Collection Fund is used to account for assets held by the Township in a trustee capacity or as an agent for other governments and other funds. This fund is custodial in nature and does not involve measurement of results of operations.

Basis of Accounting

Government-wide Financial Statements

The Government-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses, gains and losses using the economic resources measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The Statement of Activities reports net cost information based on the Township's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. Program revenues include charges for services that are fees and other charges to the users or recipients of the services the Township provides. Program revenues also include operating grants and contributions that are restricted for a particular purpose. Property taxes, nonrestricted state and federal aid and other revenues that are not program revenues are reported as general revenues.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Fund-based Financial Statements

Governmental fund types and the Agency Fund use the modified accrual basis of accounting and the flow of expendable financial resources (measurement focus). Under the modified accrual basis of accounting, revenues are recorded when all applicable eligibility requirements are met and resources are available (often referred to as "susceptible to accrual"). Revenues are available when revenues are collectible during the period and the actual collection will occur either (a) during the current period or (b) after the end of the period but in time to pay fund liabilities. The Township considers revenues to be available if they are expected to be collected within 60 days of the end of the year, except that tax revenues, fees and nontax revenues are recognized when received. Grants, entitlements and shared revenues are recorded when they are susceptible to accrual. Expenditure-based grants are recorded as revenue when all applicable eligibility requirements of the grants are met and resources are available. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable financial resources, except unmatured interest on general long-term debt is recorded when due.

Proprietary fund types use the accrual basis of accounting and the flow of all economic resources (measurement focus). This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises; revenues are recorded when earned and expenses are recorded when incurred. Under this basis of accounting and measurement focus, the Township applies (a) all GASB pronouncements and (b) FASB Statements and Interpretations, APB Opinions and Accounts Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Budgets and the Budgetary Process

The Township Board adopts an annual operating budget, which can be amended by the Board throughout the year. Formal budgetary accounting is employed as a management control for all funds of the Township; however, a legal budget is adopted only for the General Fund. The budget is adopted on the same basis of accounting as is used to reflect actual revenues and expenditures.

At the fund level, actual expenditures cannot exceed budgeted appropriations; however, with proper approval by the Township Board, budgetary transfers between departments can be made. The budgeted financial statements represented in this report reflect the final budget authorization and all budget amendments approved by the Board during the year. Budgets are adopted on the functional level and lapse at the end of the year.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

Credit is extended to customers of the Enterprise Funds and to various units of government by the General Fund. All receivables are reported at their gross value. No allowance for uncollectible accounts is included in the financial statements as uncollectible accounts are few.

Due To and Due From Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Investment in Capital Assets, Net of Related Debt

This is a portion of net assets of the Township that consists of capital assets, net of accumulated depreciation and reduced by long-term liabilities for notes, bonds and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted Net Assets

Net assets are restricted when there are constraints placed on their use by external parties or by statute. The Enterprise Funds, because of certain bond covenants and Board action, are required to establish and maintain prescribed amounts of cash that can be used only to service outstanding debt and to pay for replacement of the utility plant assets.

Unrestricted Net Assets

Net assets not meeting either criteria above are considered unrestricted.

Capital Assets and Depreciation

Capital assets include land and improvements, buildings, furniture and fixtures, equipment, fire trucks and vehicles and are reported in the Government-wide financial statements. Capital assets are defined by the Township as assets with an acquisition cost of generally more than \$1,000 or betterments totaling \$10,000 with an estimated useful life in excess of five years. Assets meeting this criteria are recorded at historical cost or estimated historical costs if the amount is not known. Any donated capital assets are recorded at estimated fair market value at the date of donation. The costs of capital assets are charged to expense using an annual allocation of depreciation expense. Taking the depreciable cost of an asset and dividing that cost by its estimated useful life calculates the annual expense. The expense is recorded on the Government-wide Statement of Activities and included as a direct expense of an identifiable function if the assets sole purpose can be identified as being for that function. Depreciation expense (unallocated) is the amount of depreciation expense that cannot be charged to any particular function.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets and Depreciation (Continued)

The capital assets are depreciated using the straight-line method over the following useful lives:

Land	Not depreciated
Buildings and improvements	25-50 years
Office furniture and fixtures	5-10 years
Fire equipment	20 years
Other equipment	10 years

Long-Term Debt

Long-term liabilities for revenue bonds are reported in the appropriate Enterprise Fund. The note payable to USDA Rural Development is reported in the Government-wide financial statements as a liability of the General Fund.

Compensated Absences

Township employees covered by a union agreement are entitled to compensated sick pay based on their length of employment. Compensated absences accumulate at 5 1/2 hours for each month of service and are accrued when they are earned. Unused sick leave may be accumulated for a maximum of 45 days.

If an employee has 10 years or more of service and retires, the employee will be paid at 100% of their prevailing rate of pay for all unused sick leave. Otherwise, no payment will be made for unused sick leave upon termination of employment.

Pensions

The provision for pension cost is recorded on an accrual basis, and the Township's policy is to fund pension costs as they accrue.

Fund Equity

The unreserved fund equity for governmental funds represent the amount available for budgeting future operations.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Revenues

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 of the ensuing year with the final collection date of February 28 before they are added to the delinquent rolls. The Township records property taxes as a receivable and as a deferred revenue on December 1; the property taxes are then recognized as revenue as collections are made, when monies are available for use to finance Township operations. Delinquent real property taxes of the Township and all other local units are purchased annually by the County.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Restatement of April 1, 2004 Net Assets

The Township has restated its net assets at April 1, 2004, to correct the reported amount of accumulated depreciation of governmental activities capital assets. The restatement is an increase in net assets of \$40,780.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Bond Covenants

The revenue bond ordinance issued by the Sewage Disposal System Fund and Board action requires the Township to segregate receipts to establish reserve accounts. Following is a summary of required reserves and funding levels at March 31, 2005:

	Required Reserve at <u>March 31, 2005</u>	Balance at <u>March 31, 2005</u>
Sewer Disposal System Fund:		
Rural Economic and Community Development Sewer Revenue Bonds, dated March 1, 1988:		
Bond Reserve Account	\$ 24,000	\$ 28,779
Replacement Fund	<u>7,500</u>	<u>7,500</u>
	\$ 31,500	\$ 36,279
Water Utility Fund -		
Capital Reserve Account	<u> </u>	<u>7,165</u>
TOTALS	\$ <u>31,500</u>	\$ <u>43,444</u>

Public Act 275 of 1980 Disclosure

The Township did not have a deficit in any fund as of March 31, 2005.

Public Act 621 of 1978 Disclosure

Public Act 621 of 1978 requires local units of government to prepare and to monitor their fiscal year budgets in accordance therewith. The Act provides that a Township must amend its budget if it becomes apparent that the Township's actual revenues will deviate from those budgeted, or if the Township's expenditures will exceed the amounts appropriated. During the year ended March 31, 2005, the Township monitored and amended its budget and was in substantial compliance with the Act.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C - CASH INFORMATION

All deposits were made in a bank insured by federal depository insurance. Deposits were made in accordance with State of Michigan statutes and under authorization of the Township Board.

At March 31, 2005, bank deposits, including restricted cash, totaled \$640,138. \$143,857 was covered by federal depository insurance and \$496,281 exceeded federal depository insurance coverage.

General Fund cash included the following accounts:

Operating	\$ 74,839
Fire truck	232
Zoning permits	1,495
Building permits	605
Roads	36,461
Petty cash	<u>100</u>
	<u>\$ 113,732</u>

NOTE D - ACCOUNTS RECEIVABLE

General Fund accounts receivable at March 31, 2005 consisted of Class III gaming monies due from Lac View Desert Band of Chippewa Indians of \$44,000 and summer tax collection fees from Watersmeet School District of \$15,465.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E - CAPITAL ASSETS

Following is a summary of changes in capital assets during the year ended March 31, 2005:

	Balance at April 1, <u>2004</u>	<u>Additions</u>	<u>Disposals</u>	Balance at March 31, <u>2005</u>
<u>Governmental Activities:</u>				
Assets:				
Land	\$ 11,883			\$ 11,883
Buildings and improvements	560,383	\$ 6,320		566,703
Fire equipment	364,358	42,400		406,758
Office furniture and fixtures	28,423			28,423
Other equipment	68,979	238		69,217
Infrastructure - roads	<u>116,872</u>	<u>116,872</u>		<u>116,872</u>
	\$ 1,034,026	\$ 165,830		\$ 1,199,856
Less accumulated depreciation	<u>333,295</u>	<u>41,430</u>		<u>374,725</u>
Net	\$ 700,731	\$ 124,400	\$ 0	\$ 825,131
<u>Business-type Activities:</u>				
Water Supply Fund:				
Land	\$ 3,387			\$ 3,387
Waterwells, houses and appurtenances	88,551			88,551
Water storage tank	29,517			29,517
Water distribution mains	335,912			335,912
Construction in progress	<u>39,856</u>	<u>0</u>		<u>39,856</u>
	\$ 497,223	\$ 0		\$ 497,223
Less accumulated depreciation	<u>265,707</u>	<u>11,956</u>		<u>277,663</u>
Net	\$ 231,516	\$ (11,956)	\$ 0	\$ 219,560
Sewage Disposal System:				
Land	\$ 800			\$ 800
Sewage collection mains	160,986			160,986
Wastewater treatment facilities	<u>1,324,782</u>			<u>1,324,782</u>
	\$ 1,486,568	\$ 0	\$ 0	\$ 1,486,568
Less accumulated depreciation:	<u>649,746</u>	<u>36,958</u>		<u>686,704</u>
Net	\$ 836,822	\$ (36,958)	\$ 0	\$ 799,864
Total Business-Type Activities	<u>\$ 1,068,338</u>	<u>\$ (48,914)</u>	<u>\$ 0</u>	<u>\$ 1,019,424</u>
TOTAL GOVERNMENT	<u>\$ 1,769,069</u>	<u>\$ 75,486</u>	<u>\$ 0</u>	<u>\$ 1,844,555</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - PROPERTY TAXES

The Township bills and collects its own property taxes and also collects current rolls for the County, School District, State Education Tax and Intermediate School District. The delinquent real property taxes of the Township for the 2004 levy are to be purchased by the County of Gogebic.

One taxpayer accounts for approximately 20 percent of the assessed valuation and tax levy of the Township.

Costs incurred for administrative costs in assessing and collecting property taxes exceed receipts from charging the property tax administrative fee.

A summary of the 2004 tax roll follows:

	<u>Mills</u>	<u>Levy</u>	<u>Taxes Returned Delinquent</u>	<u>Net Tax Collections</u>
Intermediate School District	3.3692	\$ 370,911	\$ 16,904	\$ 354,007
County	10.7787	1,185,009	104,146	1,080,863
State Education Tax	6.0000	660,554	31,760	628,794
School	22.3000	1,958,486	81,022	1,877,464
Township	<u>3.4300</u>	<u>377,105</u>	<u>34,154</u>	<u>342,951</u>
TOTALS	<u>45.8779</u>	<u>\$ 4,552,065</u>	<u>\$ 267,986</u>	<u>\$ 4,284,079</u>
Taxable valuation:				
Homestead				\$ 27,958,228
Non-homestead				<u>81,988,576</u>
				<u>\$ 109,946,804</u>

NOTE G - WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM JUNIOR LIEN REVENUE BOND

The Township of Watersmeet, Michigan, adopted a resolution on March 15, 1988, authorizing the issuance of a \$336,000 Water Supply and Sewage Disposal System Junior Lien Revenue Bond, dated March 1, 1988.

The bond consists of one single fully-registered nonconvertible bond of \$336,000 and was purchased by Rural Economic and Community Development (formerly Farmers Home Administration). The bond bears an interest rate of 6-1/8 percent per annum. Interest is payable on March 1 and September 1, and principal is payable each March 1 until maturity in the year 2028. Principal and interest are payable from the net revenues derived from operation of the sewage system.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM JUNIOR LIEN REVENUE
BOND (CONTINUED)

At March 31, 2005, the bond principal and interest payments were current. The principal balance outstanding of \$300,000 is accounted for as a liability of the Sewage Disposal System Fund.

Debt service charges until maturity are:

<u>Year ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 6,000	\$ 18,375	\$ 24,375
2007	6,000	18,008	24,008
2008	6,000	17,640	23,640
2009	7,000	17,273	24,273
2010	7,000	16,844	23,844
2011	8,000	16,415	24,415
2012	8,000	15,925	23,925
2013	9,000	15,435	24,435
2014	9,000	14,884	23,884
2015	10,000	14,333	24,333
2016	11,000	13,720	24,720
2017	12,000	13,046	25,046
2018	13,000	12,311	25,311
2019	14,000	11,515	25,515
2020	15,000	10,658	25,658
2021	16,000	9,739	25,739
2022	17,000	8,759	25,759
2023	18,000	7,718	25,718
2024	19,000	6,615	25,615
2025	20,000	5,451	25,451
2026	22,000	4,226	26,226
2027	22,000	2,879	24,879
2028	<u>25,000</u>	<u>1,531</u>	<u>26,531</u>
	<u>\$ 300,000</u>	<u>\$ 273,300</u>	<u>\$ 573,300</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H – NOTE PAYABLE TO USDA RURAL DEVELOPMENT

On April 11, 2003, the Township borrowed \$140,000 from USDA Rural Development to finance the purchase of a fire truck. The note bears an interest rate of 4.5% and is being amortized over a 15-year period. During the year ended March 31, 2005, the Township paid principal payments in excess of the USDA payment schedule.

Debt service charges until maturity are:

<u>Year ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006		\$ 4,928	\$ 4,928
2007		4,928	4,928
2008	\$ 3,507	4,928	8,435
2009	7,500	4,770	12,270
2010	8,500	4,432	12,932
2011	9,500	4,050	13,550
2012	10,000	3,623	13,623
2013	10,000	3,172	13,172
2014	11,000	2,723	13,723
2015	12,000	2,228	14,228
2016	12,500	1,687	14,187
2017	12,500	1,125	13,625
2018	<u>12,500</u>	<u>563</u>	<u>13,063</u>
	<u>\$ 109,507</u>	<u>\$ 43,157</u>	<u>\$ 152,664</u>

NOTE I - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables at March 31, 2005, were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>\$ 292,777</u>	Tax Collection	<u>\$ 292,777</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE J - PENSION PLAN

All full-time employees of the Township are eligible to be covered by a simplified employee pension plan administered by American Express Financial Advisors, Inc. The plan is a defined contribution plan covering all employees who are at least 18 years old and who have performed services for the Township in at least three of the immediately preceding five years. Certain employees of the Township have elected not to participate in the Plan.

The Township contributes ten percent of each employee's annual wages. Employees do not make contributions to the Plan. All participants are fully vested immediately.

The Township made contributions to the Plan of \$10,653 for the year ended March 31, 2005.

NOTE K - RISK MANAGEMENT

The Township is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township has obtained coverage from commercial insurance companies. The Township has comprehensive general liability coverage of \$3,000,000 per occurrence and a \$5,000,000 aggregate limit, with no deductible amount, and wrongful acts coverage with a \$4,000,000 aggregate limit, with no deductible amount.

All risk management activities are accounted for in the General Fund and Enterprise Funds of the Township. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the Township as of March 31, 2005, will not materially affect the financial condition of the Township. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE L – STATE CONSTRUCTION CODE ACT INFORMATION

During the year ended March 31, 2005, the Township collected construction code service fees of \$13,758 and spent \$16,788 for enforcing the code. Because the fee structure is not intended to recover the full cost of enforcement and the Township has the ability to track the full costs and revenues, a separate fund has not been created to account for these monies. In prior years, the township spent more for enforcing the code than it collected in fees.

NOTE M - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Township maintains two Enterprise Funds - one to provide a water supply system and one to provide a sewage disposal system. Segment information not presented in the basic financial statements for the year ended March 31, 2005, follows:

	Water Supply <u>Fund</u>	Sewage Disposal System <u>Fund</u>	Total Enterprise <u>Funds</u>
Tax revenues	\$ 0	\$ 0	\$ 0
Operating transfers in (out)	0	0	0
Current capital contributions	4,980	15,000	19,980
Land, buildings and equipment:			
Additions	\$ 0	\$ 0	\$ 0
Deletions	0	0	0

NOTE N – TAX TRIBUNAL AND PROPERTY USE CASES

The Township is involved in three pending Michigan Tax Tribunal cases. These cases are being held in abeyance and the state tax commission has been added as a party respondent. Currently, the Township cannot make an evaluation regarding the likelihood of an unfavorable outcome or an estimate of the amount of potential loss.

The Township is also involved in a zoning lawsuit. The Township does not believe an adverse outcome is likely and has therefore not made an estimate of the amount of potential loss.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE O – COMMITMENT

During the year ended March 31, 2002, the Township signed a 5-year contract for police services to be furnished by Lac Vieux Desert. The contract provides the Township make annual payments to Lac Vieux Desert of \$88,000 a year. It is expected that the Township will finance these payments with Class III gaming revenues to be received from the Lac Vieux Desert Band of Indians.

During the year ended March 31, 2005, the Township was billed and paid \$44,000 for these services.

NOTE P – OPERATING LEASE

On October 15, 2002, the Township entered into a 3-year lease agreement to rent a Panasonic copy machine at a monthly rent of \$216. The lease is being accounted for as an operating lease. Total rent payments for the year ended March 31, 2005, totaled \$2,873. The Township also rented certain pieces of equipment during the year and paid rent payments of \$2,378. Future minimum rent commitments as of March 31, 2005, are as follows:

Year ending:

March 31, 2006

\$ 1,512

REQUIRED
SUPPLEMENTAL
INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

TOWNSHIP OF WATERSMEET, MICHIGAN

Year ended March 31, 2005

	Original Budget	Final Budget	Actual
Revenues:			
Taxes	\$ 391,285	\$ 391,285	\$ 414,524
Licenses and permits	27,350	27,350	28,548
Federal grants	34,000	34,000	69,776
State grants	100,000	100,000	98,161
Charges for services	27,700	27,700	28,208
Interest and rents	7,600	7,600	3,560
Other revenues	<u>127,900</u>	<u>162,600</u>	<u>148,781</u>
TOTAL REVENUES	\$ 715,835	\$ 750,535	\$ 791,558
Expenditures:			
Current:			
Legislative	\$ 36,460	\$ 43,460	\$ 42,603
General government	243,712	241,466	218,763
Health and welfare	2,750	3,850	3,759
Public safety	162,500	187,400	134,206
Recreation and parks	21,645	21,645	19,805
Public works	163,510	164,510	163,862
Other functions	85,000	89,500	75,524
Capital outlay	199,517	199,517	165,830
Debt service	<u>31,000</u>	<u>31,000</u>	<u>23,599</u>
TOTAL EXPENDITURES	\$ <u>946,094</u>	\$ <u>982,348</u>	\$ <u>847,951</u>
(DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (230,259)	\$ (231,813)	\$ (56,393)
Fund balance at April 1, 2004	<u>450,133</u>	<u>450,133</u>	<u>450,133</u>
FUND BALANCE AT MARCH 31, 2005	\$ <u>219,874</u>	\$ <u>218,320</u>	\$ <u>393,740</u>

The accompanying notes are an integral part of the financial statements.

OTHER
FINANCIAL
INFORMATION

STATEMENT OF REVENUES - ESTIMATED AND ACTUAL - GENERAL FUND

TOWNSHIP OF WATERSMEET, MICHIGAN

Year ended March 31, 2005

	Estimated Revenue	Actual Revenue	Variance Favorable (Unfavorable)
Taxes:			
Current property taxes	\$ 325,000	\$ 342,951	\$ 17,951
Delinquent property taxes	20,385	24,381	3,996
Payment in lieu of tax	4,500	3,136	(1,364)
Commercial forest reserve	1,400	5,231	3,831
Property tax administrative fees	<u>40,000</u>	<u>38,825</u>	<u>(1,175)</u>
	\$ 391,285	\$ 414,524	\$ 23,239
Licenses and permits:			
Building	\$ 19,600	\$ 13,758	\$ (5,842)
Zoning	<u>7,750</u>	<u>14,790</u>	<u>7,040</u>
	\$ 27,350	\$ 28,548	\$ 1,198
Federal grants:			
National Forest	\$ 34,000	\$ 30,239	\$ (3,761)
Federal Emergency Management Authority	<u> </u>	<u>39,537</u>	<u>39,537</u>
	\$ 34,000	\$ 69,776	\$ 35,776
State grants - State revenue sharing	100,000	98,161	(1,839)
Charges for services:			
Cemetery	\$ 1,200	\$ 1,790	\$ 590
Transfer station	11,500	8,881	(2,619)
Tax collection	15,000	15,465	465
Other	<u> </u>	<u>2,072</u>	<u>2,072</u>
	\$ 27,700	\$ 28,208	\$ 508
Interest and rents:			
Interest earned	\$ 3,500	\$ 3,560	\$ 60
Rents	<u>4,100</u>	<u> </u>	<u>(4,100)</u>
	\$ 7,600	\$ 3,560	\$ (4,040)

STATEMENT OF REVENUES - ESTIMATED AND ACTUAL - GENERAL FUND (CONTINUED)

	Estimated Revenue	Actual Revenue	Variance Favorable (Unfavorable)
Other revenues:			
Class III gaming revenues	\$ 158,000	\$ 139,515	\$ (18,485)
Election reimbursements	1,000	688	(312)
Refunds		6,368	6,368
Miscellaneous	<u>3,600</u>	<u>2,210</u>	<u>(1,390)</u>
	<u>\$ 162,600</u>	<u>\$ 148,781</u>	<u>\$ (13,819)</u>
 TOTAL REVENUES	 <u>\$ 750,535</u>	 <u>\$ 791,558</u>	 <u>\$ 41,023</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF EXPENDITURES AND COMPARISON WITH BUDGET - GENERAL FUND

TOWNSHIP OF WATERSMEET, MICHIGAN

Year ended March 31, 2005

	Expenditures		Variance Favorable (Unfavorable)
	Budget	Actual	
LEGISLATIVE			
Township Board:			
Salaries:			
Trustees	\$ 3,600	\$ 3,427	\$ 173
Secretary	13,500	11,925	1,575
Contributions	3,500	2,555	945
Memberships	7,500	8,868	(1,368)
Supplies	3,450	4,579	(1,129)
Equipment lease	3,200	3,615	(415)
Pension	1,710		1,710
Communications	7,000	7,000	
Miscellaneous		634	(634)
TOTAL LEGISLATIVE	\$ 43,460	\$ 42,603	\$ 857
GENERAL GOVERNMENT			
Supervisor:			
Salary	\$ 13,038	\$ 13,038	
Pension	1,304	1,086	\$ 218
Auto expense allowance	1,250	534	716
Supplies	750	2,201	(1,451)
Training	1,500	1,945	(445)
	\$ 17,842	\$ 18,804	\$ (962)
Elections:			
Salaries	\$ 6,054	\$ 6,444	\$ (390)
Supplies	500	510	(10)
Auto expense allowance	150	188	(38)
Training	500	113	387
	\$ 7,204	\$ 7,255	\$ (51)
Attorney - retainer and fees	19,500	15,794	3,706
Assessor:			
Salaries	\$ 25,680	\$ 25,776	\$ (96)
Supplies	2,000	1,886	114
Auto expense allowance	1,000	730	270
Training	1,000	1,011	(11)
Memberships	50	150	(100)
	\$ 29,730	\$ 29,553	\$ 177

STATEMENT OF EXPENDITURES AND COMPARISON WITH BUDGET -
GENERAL FUND (CONTINUED)

	Expenditures		Variance
	Budget	Actual	Favorable (Unfavorable)
GENERAL GOVERNMENT (CONTINUED)			
Clerk:			
Salaries:			
Clerk	\$ 16,764	\$ 16,764	
Deputy clerk	4,500	4,542	\$ (42)
Pension	1,676	1,397	279
Training	250	100	150
Supplies	800	759	41
Auto expense allowance	<u>150</u>	<u>216</u>	<u>(66)</u>
	\$ 24,140	\$ 23,778	\$ 362
Board of review:			
Salaries	\$ 1,000	\$ 755	\$ 245
Auto expense allowance	100	407	(307)
Training	<u>150</u>	<u>300</u>	<u>(150)</u>
	\$ 1,250	\$ 1,462	\$ (212)
Audit - professional fees	7,000	6,500	500
Treasurer:			
Salaries:			
Treasurer	\$ 18,426	\$ 18,425	\$ 1
Deputy treasurer	4,500	1,887	2,613
Supplies	10,500	7,797	2,703
Training	1,000	259	741
Pension	1,843	1,535	308
Auto expense allowance	<u>350</u>	<u>517</u>	<u>(167)</u>
	\$ 36,619	\$ 30,420	\$ 6,199
Town hall and property:			
Salaries	\$ 24,000	\$ 24,731	\$ (731)
Supplies	6,500	3,917	2,583
Public utilities	18,200	21,883	(3,683)
Repairs	2,000	1,854	146
Pension	2,350	3,244	(894)
Auto expense allowance	1,500	203	1,297
Rental	<u>250</u>	<u>2,378</u>	<u>(2,128)</u>
	\$ 54,800	\$ 58,210	\$ (3,410)
Community promotion - advertising	2,500	2,285	215

STATEMENT OF EXPENDITURES AND COMPARISON WITH BUDGET -
GENERAL FUND (CONTINUED)

	Expenditures		Variance
	Budget	Actual	Favorable (Unfavorable)
GENERAL GOVERNMENT (CONTINUED)			
Cemetery:			
Salaries	\$ 2,500	\$ 3,304	\$ (804)
Pension	550		550
Repairs	600	393	207
Supplies	<u>1,375</u>	<u>1,163</u>	<u>212</u>
	\$ 5,025	\$ 4,860	\$ 165
Community development:			
Contracted labor	\$ 33,007	\$ 19,312	\$ 13,695
Training	849	530	319
Contributions	<u>2,000</u>		<u>2,000</u>
	<u>\$ 35,856</u>	<u>\$ 19,842</u>	<u>\$ 16,014</u>
TOTAL GENERAL GOVERNMENT	\$ 241,466	\$ 218,763	\$ 22,703
HEALTH AND WELFARE			
Senior meals	3,850	3,759	91
PUBLIC SAFETY			
Building inspector:			
Salaries	\$ 15,500	\$ 12,304	\$ 3,196
Supplies	1,500	2,102	(602)
Auto expense allowance	2,000	2,025	(25)
Training	<u>600</u>	<u>357</u>	<u>243</u>
	\$ 19,600	\$ 16,788	\$ 2,812
Zoning board:			
Salaries	\$ 11,300	\$ 8,361	\$ 2,939
Auto expense allowance	1,000	604	396
Advertising	1,500	445	1,055
Training	1,000	398	602
Supplies	500	80	420
Development expenses	<u>4,900</u>	<u>5,215</u>	<u>(315)</u>
	\$ 20,200	\$ 15,103	\$ 5,097
Contracted dispatch	8,000	8,000	

STATEMENT OF EXPENDITURES AND COMPARISON WITH BUDGET -
GENERAL FUND (CONTINUED)

	Expenditures		Variance
	Budget	Actual	Favorable (Unfavorable)
PUBLIC SAFETY (CONTINUED)			
Fire department:			
Salaries	\$ 8,925	\$ 8,784	\$ 141
Supplies	2,325	2,627	(302)
Public utilities	4,000	4,235	(235)
Repairs	4,000	3,922	78
Hydrant rental	1,200	2,400	(1,200)
Training	10,000	6,460	3,540
Insurance	650	781	(131)
Auto expense allowance	<u>500</u>	<u>1,106</u>	<u>(606)</u>
	\$ 31,600	\$ 30,315	\$ 1,285
Police contract	<u>108,000</u>	<u>64,000</u>	<u>44,000</u>
TOTAL PUBLIC SAFETY	\$ 187,400	\$ 134,206	\$ 53,194
RECREATION AND PARKS			
Recreation:			
Salaries	\$ 13,000	\$ 13,800	\$ (800)
Pension	1,200		1,200
Repairs	4,195	2,740	1,455
Supplies		310	(310)
Public utilities	1,750	1,755	(5)
Contracted services	<u>1,500</u>	<u>1,200</u>	<u>300</u>
TOTAL RECREATION AND PARKS	\$ 21,645	\$ 19,805	\$ 1,840
PUBLIC WORKS			
Highways and streets - construction and maintenance	\$ 5,000	\$ 4,623	\$ 377
Street lighting	19,000	19,059	(59)
Refuse disposal:			
Salaries and wages	\$ 27,855	\$ 27,592	\$ 263
Pension	205	1,846	(1,641)
Garbage haul contract	110,000	108,851	1,149
Supplies	200	145	55
Public utilities	1,250	1,226	24
Miscellaneous	<u>1,000</u>	<u>520</u>	<u>480</u>
	\$ 140,510	\$ 140,180	\$ 330
TOTAL PUBLIC WORKS	\$ 164,510	\$ 163,862	\$ 648

STATEMENT OF EXPENDITURES AND COMPARISON WITH BUDGET -
GENERAL FUND (CONTINUED)

	Expenditures		Variance Favorable (Unfavorable)
	Budget	Actual	
OTHER FUNCTIONS			
Employer's share of payroll taxes	\$ 17,000	\$ 20,133	\$ (3,133)
Insurance and bonds	51,080	41,092	9,988
Health insurance	20,500	14,171	6,329
Miscellaneous	<u>920</u>	<u>128</u>	<u>792</u>
TOTAL OTHER FUNCTIONS	\$ 89,500	\$ 75,524	\$ 13,976
CAPITAL OUTLAY			
Road construction	\$ 175,000	\$ 116,872	\$ 58,128
Fire equipment	9,400	42,400	(33,000)
Township Board	4,000		4,000
Townhall	6,000	6,558	(558)
Parks and recreation	<u>5,117</u>	<u></u>	<u>5,117</u>
TOTAL CAPITAL OUTLAY	\$ 199,517	\$ 165,830	\$ 33,687
DEBT SERVICE			
Principal	\$ 25,000	\$ 18,128	\$ 6,872
Interest and fees	<u>6,000</u>	<u>5,471</u>	<u>529</u>
TOTAL DEBT SERVICE	\$ <u>31,000</u>	\$ <u>23,599</u>	\$ <u>7,401</u>
TOTAL EXPENDITURES	\$ <u>982,348</u>	\$ <u>847,951</u>	\$ <u>134,397</u>

The accompanying notes are an integral part of the financial statements.

COMBINING STATEMENTS OF NET ASSETS -

TOWNSHIP OF

	March 31, 2005			March 31, 2004
	Water Supply Fund	Sewage Disposal System Fund	Combined	Combined
ASSETS				
CURRENT ASSETS				
Cash in bank	\$ 26,176	\$ 109,746	\$ 135,922	\$ 134,031
Accounts receivable	7,401	11,700	19,101	17,751
Due from other funds				916
TOTAL CURRENT ASSETS	\$ 33,577	\$ 121,446	\$ 155,023	\$ 152,698
UTILITY PLANT				
Utility plant in service	\$ 457,367	\$ 1,486,568	\$ 1,943,935	\$ 1,943,935
Less allowances for depreciation	<u>277,663</u>	<u>686,704</u>	<u>964,367</u>	<u>915,453</u>
	\$ 179,704	\$ 799,864	\$ 979,568	\$ 1,028,482
Construction in progress	<u>39,856</u>		<u>39,856</u>	<u>39,856</u>
	\$ 219,560	\$ 799,864	\$ 1,019,424	\$ 1,068,338
OTHER ASSET				
Restricted cash - bond reserve and replacement accounts	<u>7,165</u>	<u>36,279</u>	<u>43,444</u>	<u>38,373</u>
	<u>\$ 260,302</u>	<u>\$ 957,589</u>	<u>\$ 1,217,891</u>	<u>\$ 1,259,409</u>

ENTERPRISE FUNDS

WATERSMEET, MICHIGAN

	March 31, 2005			March 31, 2004
	Water Supply Fund	Sewage Disposal System Fund	Combined	Combined
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable				\$ 1,650
Accrued interest		\$ 1,608	\$ 1,608	1,608
Advance collections	\$ 1,649	25	1,674	1,045
Current maturity on long-term debt		6,000	6,000	5,000
TOTAL CURRENT LIABILITIES	\$ 1,649	\$ 7,633	\$ 9,282	\$ 9,303
LONG-TERM DEBT				
Revenue bonds payable		\$ 300,000	\$ 300,000	\$ 305,000
Less amount classified as current liability		6,000	6,000	5,000
		\$ 294,000	\$ 294,000	\$ 300,000
TOTAL LIABILITIES	\$ 1,649	\$ 301,633	303,282	\$ 309,303
NET ASSETS				
Invested in capital assets, net of related debt	\$ 219,560	\$ 499,864	\$ 719,424	\$ 763,338
Restricted for debt service and replacement	7,165	36,279	43,444	38,373
Unrestricted	31,928	119,813	151,741	148,395
TOTAL NET ASSETS	\$ 258,653	\$ 655,956	\$ 914,609	\$ 950,106

The accompanying notes are an integral part of the financial statements.

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
ENTERPRISE FUNDS

TOWNSHIP OF WATERSMEET, MICHIGAN

	Year ended March 31, 2005			Year ended March 31, 2004
	Water Supply Fund	Sewage Disposal System Fund	Combined	Combined
Operating revenues:				
Charges for services - Sales	\$ 49,282	\$ 61,418	\$ 110,700	\$ 109,711
Hydrant rental	<u>2,400</u>		<u>2,400</u>	
TOTAL OPERATING REVENUES	\$ 51,682	\$ 61,418	\$ 113,100	\$ 109,711
Operating expenses:				
Personnel services	\$ 17,233	\$ 27,077	\$ 44,310	\$ 39,234
Purchase of services	14,631	17,885	32,516	37,129
Materials and supplies	14,201	10,678	24,879	6,596
Provision for depreciation	<u>11,956</u>	<u>36,958</u>	<u>48,914</u>	<u>48,711</u>
	<u>\$ 58,021</u>	<u>\$ 92,598</u>	<u>\$ 150,619</u>	<u>\$ 131,670</u>
OPERATING LOSS	\$ (6,339)	\$ (31,180)	\$ (37,519)	\$ (21,959)
Nonoperating revenues (expenses):				
Interest earned	\$ 150	\$ 573	\$ 723	\$ 1,068
Debt service - interest and fees		<u>(18,681)</u>	<u>(18,681)</u>	<u>(18,988)</u>
	<u>\$ 150</u>	<u>\$ (18,108)</u>	<u>\$ (17,958)</u>	<u>\$ (17,920)</u>
Capital contributions - Bureau of Indian Affairs grant	\$ (6,189)	\$ (49,288)	\$ (55,477)	\$ (39,879)
	<u>4,980</u>	<u>15,000</u>	<u>19,980</u>	
CHANGE IN NET ASSETS	\$ (1,209)	\$ (34,288)	\$ (35,497)	\$ (39,879)
Net assets at beginning of year	<u>259,862</u>	<u>690,244</u>	<u>950,106</u>	<u>989,985</u>
NET ASSETS AT END OF YEAR	<u>\$ 258,653</u>	<u>\$ 655,956</u>	<u>\$ 914,609</u>	<u>\$ 950,106</u>

The accompanying notes are an integral part of the financial statements.

COMBINING STATEMENTS OF CASH FLOWS - ENTERPRISE FUNDS

TOWNSHIP OF WATERSMEET, MICHIGAN

	Year ended March 31, 2005			Year ended March 31, 2004
	Water Supply Fund	Sewage Disposal System Fund	Combined	Combined
Cash flows from operating activities:				
Cash received from customers	\$ 49,993	\$ 59,986	\$ 109,979	\$ 100,478
Hydrant rental	2,400		2,400	
Cash paid suppliers and employees for goods and services	<u>(46,136)</u>	<u>(57,219)</u>	<u>(103,355)</u>	<u>(83,605)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 6,257	\$ 2,767	\$ 9,024	\$ 16,873
Cash flows from capital and related financing activities:				
Capital expenditures				\$ (67,815)
Capital grants received	\$ 4,980	\$ 15,000	\$ 19,980	
Principal paid on revenue bonds		(5,000)	(5,000)	(5,000)
Revenue bond interest and fees		<u>(18,681)</u>	<u>(18,681)</u>	<u>(18,988)</u>
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	\$ 4,980	\$ (8,681)	\$ (3,701)	\$ (91,803)
Cash flows from noncapital financing activities -				
Advance from (to) other fund	916		916	(2,487)
Cash flows from investing activities -				
Interest earned	<u>150</u>	<u>573</u>	<u>723</u>	<u>1,068</u>
NET INCREASE (DECREASE) IN CASH	\$ 12,303	\$ (5,341)	\$ 6,962	\$ (76,349)
Cash at beginning of year	<u>21,038</u>	<u>151,366</u>	<u>172,404</u>	<u>248,753</u>
CASH AT END OF YEAR	<u>\$ 33,341</u>	<u>\$ 146,025</u>	<u>\$ 179,366</u>	<u>\$ 172,404</u>

COMBINING STATEMENTS OF CASH FLOWS - ENTERPRISE FUNDS (CONTINUED)

	Year ended March 31, 2005			Year ended March 31, 2004 Combined
	Water Supply Fund	Sewage Disposal System Fund	Combined	
Reconciliation of operating loss to net cash provided by (used in) operating activities:				
Operating loss	\$ (6,339)	\$ (31,180)	\$ (37,519)	\$ (21,959)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	\$ 11,956	\$ 36,958	\$ 48,914	\$ 48,711
Increase in customer accounts receivable	(99)	(1,251)	(1,350)	(8,282)
Increase (decrease) in:				
Accounts payable	(71)	(1,579)	(1,650)	(646)
Advance collections	<u>810</u>	<u>(181)</u>	<u>629</u>	<u>(951)</u>
Total adjustments	<u>\$ 12,596</u>	<u>\$ 33,947</u>	<u>\$ 46,543</u>	<u>\$ 38,832</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 6,257</u>	<u>\$ 2,767</u>	<u>\$ 9,024</u>	<u>\$ 16,873</u>

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF NET ASSETS

TOWNSHIP OF

		March 31,	
		2005	2004
ASSETS			
CURRENT ASSETS			
Cash in bank	\$	109,746	\$ 115,297
Customer accounts receivable		<u>11,700</u>	<u>10,449</u>
TOTAL CURRENT ASSETS	\$	121,446	\$ 125,746
NONCURRENT ASSETS			
Utility plant in service	\$	1,486,568	\$ 1,486,568
Less allowances for depreciation		<u>686,704</u>	<u>649,746</u>
Restricted cash - bond reserve and replacement accounts		<u>36,279</u>	<u>36,069</u>
TOTAL ASSETS	\$	<u>957,589</u>	\$ <u>998,637</u>

SEWAGE DISPOSAL SYSTEM FUND

WATERSMEET, MICHIGAN

	March 31,	
	2005	2004
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable		\$ 1,579
Accrued interest	\$ 1,608	1,608
Advance collections	25	206
Current maturity on long-term debt	<u>6,000</u>	<u>5,000</u>
TOTAL CURRENT LIABILITIES	\$ 7,633	\$ 8,393
LONG-TERM DEBT		
Revenue bonds payable	\$ 300,000	\$ 305,000
Less amount classified as current liability	<u>6,000</u>	<u>5,000</u>
	<u>\$ 294,000</u>	<u>\$ 300,000</u>
TOTAL LIABILITIES	<u>\$ 301,633</u>	<u>\$ 308,393</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 499,864	\$ 531,822
Restricted for debt service	36,279	36,069
Unrestricted	<u>119,813</u>	<u>122,353</u>
TOTAL NET ASSETS	<u>\$ 655,956</u>	<u>\$ 690,244</u>

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
SEWAGE DISPOSAL SYSTEM FUND

TOWNSHIP OF WATERSMEET, MICHIGAN

	Year ended March 31,	
	2005	2004
Operating revenues - charges for services	\$ 61,418	\$ 63,407
Operating expenses:		
Personnel services	\$ 27,077	\$ 18,361
Purchase of services	17,885	10,533
Materials and supplies	10,678	3,682
Provision for depreciation	<u>36,958</u>	<u>36,755</u>
	<u>\$ 92,598</u>	<u>\$ 69,331</u>
OPERATING LOSS	\$ (31,180)	\$ (5,924)
Nonoperating revenues (expenses):		
Interest earned	\$ 573	\$ 823
Debt service - interest and fees	<u>(18,681)</u>	<u>(18,988)</u>
	<u>\$ (18,108)</u>	<u>\$ (18,165)</u>
	\$ (49,288)	\$ (24,089)
Capital contribution - Bureau of Indian Affairs grant	<u>15,000</u>	<u></u>
CHANGE IN NET ASSETS	\$ (34,288)	\$ (24,089)
Net assets at beginning of year	<u>690,244</u>	<u>714,333</u>
NET ASSETS AT END OF YEAR	<u>\$ 655,956</u>	<u>\$ 690,244</u>

The accompanying notes are an integral part of the
financial statements.

STATEMENTS OF CASH FLOWS - SEWAGE DISPOSAL SYSTEM FUND

TOWNSHIP OF WATERSMEET, MICHIGAN

	Year ended March 31,	
	2005	2004
Cash flows from operating activities:		
Cash received from customers	\$ 59,986	\$ 59,543
Cash paid to suppliers for goods and services	<u>(57,219)</u>	<u>(32,709)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,767	\$ 26,834
Cash flows from capital and related financing activities:		
Capital expenditures		\$ (27,959)
Principal paid on revenue bonds	\$ (5,000)	(5,000)
Revenue bond interest and fees paid	(18,681)	(18,988)
Capital grant received	<u>15,000</u>	<u></u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (8,681)	\$ (51,947)
Cash flows from noncapital financing activities -		
Advances from other funds		3,590
Cash flows from investing activities -		
interest earned	<u>573</u>	<u>823</u>
NET DECREASE IN CASH	\$ (5,341)	\$ (20,700)
Cash at beginning of year	<u>151,366</u>	<u>172,066</u>
CASH AT END OF YEAR	<u>\$ 146,025</u>	<u>\$ 151,366</u>

STATEMENTS OF CASH FLOWS - SEWAGE DISPOSAL SYSTEM FUND (CONTINUED)

	<u>Year ended March 31,</u>	
	<u>2005</u>	<u>2004</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (31,180)	\$ (5,924)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	\$ 36,958	\$ 36,755
Decrease in customer accounts receivable	(1,251)	(3,260)
Decrease in:		
Accounts payable	(1,579)	(133)
Advance collections	<u>(181)</u>	<u>(604)</u>
Total adjustments	\$ <u>33,947</u>	\$ <u>32,758</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>2,767</u>	\$ <u>26,834</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - TAX COLLECTION FUND

TOWNSHIP OF WATERSMEET, MICHIGAN

Year ended March 31, 2005

	Balance at April 1, 2004	Additions	Deductions	Balance at March 31, 2005
Assets:				
Cash in bank	<u>\$ 401,213</u>	<u>\$ 4,433,785</u>	<u>\$ 4,505,799</u>	<u>\$ 329,199</u>
Liabilities:				
Due Watersmeet Township	\$ 364,097	\$ 435,040	\$ 506,360	\$ 292,777
Due Gogebic County		1,722,601	1,722,601	
Due Gogebic-Ontonagon				
Intermediate School District		356,766	356,766	
Due Watersmeet School District		1,895,112	1,895,112	
Commercial Forest Act taxes	6,035	5,288	6,035	5,288
Delinquent personal				
property taxes	31,081	6,932	9,278	28,735
Payments in lieu of taxes		2,399		2,399
Other tax collections		<u>9,647</u>	<u>9,647</u>	
	<u>\$ 401,213</u>	<u>\$ 4,433,785</u>	<u>\$ 4,505,799</u>	<u>\$ 329,199</u>

The accompanying notes are an integral part of the financial statements.

SUPPLEMENTAL
REPORTS

JOKI, MAKELA & POLLACK, P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS
301 N. SUFFOLK STREET
IRONWOOD, MICHIGAN 49938-2027

T. J. MAKELA, C.P.A.
W. J. JOKI, C.P.A.
A. R. POLLACK, C.P.A., C.S.E.P.
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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

Supervisor and Members of the Board
Township of Watersmeet
Watersmeet, Michigan

We have audited the financial statements of the government activities, the business-type activities and each major fund of Township of Watersmeet as of and for the year ended March 31, 2005, which collectively comprises the Township of Watersmeet's basic financial statements and have issued our report thereon dated June 24, 2005. The Township restated its net assets at April 1, 2004, to correct the reported amount of accumulated depreciation of governmental activities capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Township of Watersmeet's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Township of Watersmeet's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 05-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described in the Schedule of Findings is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Township of Watersmeet's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Township Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Joki, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
June 24, 2005

SCHEDULE OF FINDINGS
TOWNSHIP OF WATERSMEET
Year ended March 31, 2005

Reportable Condition:

(05-1) Distribution of Tax Payments to Other Units

During the year ended March 31, 2005, we noted that the Township distributed \$36,074 of Commercial Forest Act withdrawal tax payments to other units of government, which were a duplicate of payments made during the year ended March 31, 2004. As a result, the Township is required to bill the units of government to recover the excess amount distributed.

We recommend the Township require future distributions of Commercial Forest Act withdrawal tax payments be reviewed by at least two Board members prior to their being released.